

# **PUBLIC DISCLOSURE**

**January 14, 2002**

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**Montecito Bank & Trust  
21956**

**1010 State Street  
Santa Barbara, California 93101**

**Federal Deposit Insurance Corporation  
25 Ecker Street, Suite 2300  
San Francisco, California 94105**

**NOTE:** This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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## GENERAL INFORMATION

*The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.*

*This document is an evaluation of the Community Reinvestment Act (CRA) performance of **Montecito Bank and Trust** prepared by the **Federal Deposit Insurance Corporation**, the institution's supervisory agency, as of **January 14, 2002**. The agency evaluates performance in assessment area(s), as they are delineated by the institution, rather than individual branches. This assessment area evaluation may include the visits to some, but not necessarily all of the institution's branches. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 345.*

This evaluation reflects the bank's CRA accomplishment since the September 28, 1999 Performance Evaluation. We conducted the evaluation at the bank's headquarters in Santa Barbara, California. We relied on records and reports provided by the bank, publicly available loan and financial information, demographic information, and information gathered as part of the examination process.

Prior public evaluations reflect a satisfactory record of CRA performance within the bank's communities, including those geographies designated as low- and moderate-income areas (LMI). The prior evaluation reflected a "Satisfactory" performance rating for Montecito Bank & Trust.

## **INSTITUTION RATING**

***INSTITUTION'S CRA RATING:*** This institution is rated Satisfactory.

In summary, Montecito Bank & Trust demonstrates a good level of responsiveness to the credit needs of its assessment area based on the following findings:

### **LENDING**

- A high percentage of small business and home mortgage loans were extended within the bank's assessment area.
- The dispersion of small business and home mortgage loans to LMI geographies is adequate.
- The distribution of small business and home mortgage loans reflects an adequate dispersion among businesses of different revenue sizes and borrowers of different incomes.
- The level of community development lending activity within the assessment area is considered adequate.
- The bank makes limited use of innovative and flexible lending programs to assist small businesses and first time homebuyers.

### **INVESTMENTS**

- The institution has an adequate level of community development investments and grants that focus on affordable housing related activities and the provision of basic services to LMI individuals within its assessment area.
- The institution rarely uses innovative and/or complex investments to support community development initiatives.

### **SERVICES**

- The retail and community development services reflect good responsiveness to the needs of the community.
- The bank operates six full service branches within its assessment area.
- The bank is actively participating and sponsoring activities that promote economic development within its assessment area, including LMI geographies.
- The branch locations, banking hours and alternative delivery systems are accessible to all portions of its assessment area, including LMI geographies and individuals.

- The bank offers a wide range of commercial and retail lending, and deposit products at each of its branch offices.

**LENDING, INVESTMENT, AND SERVICE TEST TABLE:**

*The following table indicates the performance level of the institution with respect to the lending, investment, and service tests.*

PERFORMANCE LEVELS	Montecito Bank & Trust		
	PERFORMANCE TESTS		
	Lending Test	Investment Test	Service Test
Outstanding			
High Satisfactory			X
Low Satisfactory	X	X	
Needs to Improve			
Substantial Noncompliance			

## **DESCRIPTION OF INSTITUTION :**

Montecito Bank & Trust (MBT) was established in 1975 and is a wholly owned subsidiary of Montecito Bancorp, a single bank holding company. MBT is headquartered in downtown Santa Barbara, California and has two wholly owned subsidiaries: Mountain Financial Corporation and Bankers Alliance Mortgage. Mountain Financial was formed to act as a trustee on real estate loans and used to take title and manage other real estate owned by the bank. Bankers Alliance Mortgage was formed to originate real estate loan products for resale on the secondary market. In 1997, the subsidiary's mortgage banking activity was transferred to the bank and was rendered inactive.

The bank has five branch locations: downtown and LaCumbre in Santa Barbara, and in the neighboring cities of Montecito, Goleta and Carpinteria. A sixth branch was added in Solvang, California as of October 2001 through a merger with Valley Oaks National Bank. The branch is now known as Valley Oaks Bank, a division of MBT. Two branches are located in upper-income census tracts, three in middle-income tracts, and one in a moderate-income tract. MBT also has a small business lending office located in Ventura and a mortgage lending office in Santa Maria. No branches have been closed since the last examination.

The bank primarily grants commercial, real estate, and SBA loans to small to mid-sized businesses in the Santa Barbara and surrounding areas. They also offer all types of consumer loans and services including home mortgage, home equity lines, mobile home loans, and credit cards. Deposit products include various checking and savings accounts for consumer and business customers. The bank provides alternate delivery services including a 24-hour telephone banking service, ATM service, and an Internet banking service, which offers the ability to pay bills, check account balances, reconcile bank statements, and transfer money between accounts on-line.

The December 31, 2001 Consolidated Report of Condition and Income reflects total assets of \$473 million. Gross loans total \$322 million and comprise approximately 68 percent of the bank's total assets. MBT's loan-to-deposit ratio as of December 31, 2001 is 76 percent. For the same period, commercial/industrial and commercial real estate loans aggregated \$200 million or 62 percent of total loans, and represent the largest loan categories. Loans secured by 1-4 family residential properties comprise 17 percent while consumer loans to individuals comprise 8 percent. Table 1 reflects the composition of the institution's loan portfolio as of December 31, 2001.

<i>Table 1 – Loan Portfolio</i>		
<i>LOAN TYPE</i>	<i>DOLLAR AMOUNT (000s)</i>	<i>PERCENT OF TOTAL LOANS</i>
<i>Construction and Land Development</i>	25,162	7.8
<i>Real Estate – Farmland</i>	8,879	2.8
<i>Real Estate – Residential</i>	54,877	17.0
<i>Real Estate – Multifamily</i>	7,233	2.3
<i>Real Estate – Commercial</i>	116,424	36.1
<i>Commercial and Industrial</i>	83,567	25.9
<i>Agricultural Loans</i>	1,993	0.6
<i>Individual Loans</i>	25,277	7.8
<i>All Other</i>	260	0.1
<i>Less: Unearned Income</i>	(1,177)	(0.4)
<i>Total</i>	<i>322,495</i>	<i>100.0</i>

*Source: Report of Income and Condition*

Presently, no apparent regulatory or economic constraints would prevent MBT from actively pursuing CRA opportunities within the confines of safe and sound business operations. The bank's financial condition is sound with adequate asset and capital positions. The bank operates in a highly competitive environment. There are numerous banks and credit unions headquartered in the bank's assessment area. Currently, there are no similarly situated institutions in the bank's assessment area in which to compare the bank's performance.

MBT received an overall CRA rating of "Satisfactory" during the September 28, 1999 FDIC Performance Evaluation which utilized limited scope small bank procedures. Large bank procedures were utilized for the current evaluation as the bank met the asset size requirements and began reporting CRA data in 1999.

## **DESCRIPTION OF THE ASSESSMENT AREA**

### **Scope of Evaluation**

MBT has designated Santa Barbara County as its assessment area. Santa Barbara County is wholly contained in the Santa Barbara-Santa Maria-Lompoc Metropolitan Statistical Area (MSA) 7480. The assessment area complies with the technical requirements of the regulation and does not arbitrarily exclude LMI neighborhoods. A full scope review of this assessment area was conducted on-site using Large Bank CRA evaluation procedures to ascertain the bank's performance. Loans reported pursuant to the CRA and Home Mortgage Disclosure Act (HMDA) data collection requirements for the years 2000 and 2001 were included in the review. Consumer loans were not reviewed, as that category does not constitute a substantial majority of the bank's lending. All aggregate data used in the analysis is for the year 2000. Data reported under the Community Development Lending, Investment Test, and Service Test sections covers the period from the last evaluation to the current evaluation period. A review of FDIC records, as well as the bank's CRA Public File, did not reveal any complaints relating to the bank's CRA performance since the prior examination.

### **Santa Barbara-Santa Maria-Lompoc MSA 7480**

#### Demographic and Economic Data

MSA 7480 contains 82 census tracts (one low-, 23 moderate-, 29 middle-, 27 upper-income, and two with no income). Low and moderate-income (LMI) census tracts account for approximately 29 percent of the total number of tracts within the MSA. The total population of the MSA from the 1990 U.S. Census is 369,608. As of January 2000, the total population of the MSA according to the California Department of Finance is estimated to be 414,200. The 2000 and 2001 adjusted median family incomes are \$53,500 and \$56,500, respectively, based on estimates from the Department of Housing and Urban Development (HUD).

Santa Barbara County is wholly contained in MSA 7480.

There are 130,378 households in Santa Barbara County. Approximately 32 percent of these households are located in LMI census tracts, which closely approximates the percentage of LMI census tracts (29 percent) in the county.

Sixteen percent of the houses in moderate-income tracts are owner-occupied. No homes in low-income areas are owner-occupied. The median home value for moderate-income tracts is \$210,000, which may not be affordable for moderate-income borrowers. The median rent in the MSA is \$673, which is within the reach of most of the population.

The following table(s) reflect additional demographic information for MSA 7480.



<b>Table 2 - Selected Housing Characteristics by Income Category of MSA 7480</b>									
<b>Geographic Income Category</b>	<b>Percentage</b>						<b>Median</b>		
	<b>Census Tracts</b>	<b>House- holds</b>	<b>Housing Units</b>	<b>Owner- Occupied</b>	<b>Rental Units</b>	<b>Vacant Units</b>	<b>Age*</b>	<b>Home Value* (000's)</b>	<b>Gross Rent**</b>
<b>Low</b>	1.2	1.2	1.2	0.0	2.6	2.0	25	\$0	\$670
<b>Moderate</b>	28.1	31.1	31.2	16.3	48.6	34.7	29	\$210	\$584
<b>Middle</b>	35.4	35.1	35.0	40.6	28.5	32.0	18	\$203	\$700
<b>Upper</b>	32.9	32.6	32.6	43.1	20.3	31.3	27	\$410	\$853
<b>NA Income</b>	2.4	0.0	0.0	0.0	0.0	0.0	0	\$0	\$0
<b>Total or Median</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>25</b>	<b>\$248</b>	<b>\$673</b>

Source: U.S. Census, 1990; \* - Owner-Occupied Units, \*\* - Renter-Occupied units

Although Santa Barbara's economy has weakened in recent months, employment growth is still outpacing the nation. The metro area is shielded from the harshest effects of the nation's economic slump due to its relatively low exposure to manufacturing. However, retail trade and services job growth is weakening as residents rein in spending. Recent job losses have meant that the number of workers employed in Santa Barbara's services industry is virtually unchanged from where it was at the beginning of the year. Consumer balance sheets are beginning to show the strain of the economic slump. Personal bankruptcy filings increased slightly in the second quarter.

Santa Barbara's economy will slow further in the near term as consumer confidence wanes further; however, it will continue to outperform the nation due to support from tourism, education, and defense research. Stability is provided by the large University of California campus and the aerospace complex centered around Vandenburg Air Force Base. The defense industry will benefit from a shift in U.S. defense strategies and increased defense spending. Santa Barbara also will benefit from the growing UCSB campus, which managed to achieve a 4.7 percent increase in its budget for the 2001-2002 fiscal year. In addition, Santa Barbara has been successful in attracting medical devices, healthcare software, and surgical technology firms, who are likely to attract more interest from venture capitalists in the near term.

Recent construction permitting activity has fallen off, due not only to zoning restrictions and anti-growth sentiment, but also to falling affordability caused by strong house price appreciation. However, the value of home additions and renovations is rising, indicating that the slumping economy has made residents unwilling to take on new mortgages, preferring to upgrade existing homes. Longer-term, the limited supply of houses in Santa Barbara will support residential construction despite low affordability.

Top employers include defense, health, and education. The following table reflects the composition of the area's economy:

<b>Table 3 - Industry by Total Employment and Revenue Size</b>		
	<b>% of Total Employment 2000</b>	<b>Revenues 1999 (billions)</b>
<b>Services</b>	31.9%	\$36,411
<b>Retail</b>	17.0%	\$22,311
<b>Government</b>	16.0%	\$45,024
<b>Manufacturing</b>	13.4%	\$54,808
<b>All Other</b>	21.7%	N/A

Source: Bureau of Labor Statistics, 2000; Bureau of Economic Analysis, 1999

Santa Barbara County has over 15,865 licensed small businesses. While only a limited number of businesses are located in low-income census tracts, approximately 44 percent of the businesses are located in moderate-income geographies as shown in Table 4 below.

<b>Table 4- Small Businesses by Geography</b>		
<b>Census Tract Type</b>	<b>Number of Small Businesses</b>	<b>% of Total</b>
<b>Low-Income</b>	76	0.5
<b>Moderate-Income</b>	6,917	43.6
<b>Middle-Income</b>	4,733	29.8
<b>Upper-Income</b>	4,139	26.1
<b>N/A</b>	0	0.0
<b>Totals</b>	<b>15,865</b>	<b>100%</b>

Source: Dunn and Bradstreet, 2001

## CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

### LENDING TEST

#### Lending in the Assessment Area

MBT has extended a high percentage of loans within the assessment area. Out of a total of 999 small business and HMDA loans totaling \$185 million extended during the time period reviewed, 826 loans in the amount of \$150 million were originated within the bank's assessment area. As shown in Table 5, this represents approximately 83 percent by number and 81 percent by dollar volume, indicating that the bank has demonstrated good responsiveness to its assessment area credit needs.

<i>Table 5 – Distribution of Loans Inside and Outside of the Assessment Areas</i>										
<i>Loan Category or Type</i>	<i>Number of Loans</i>					<i>Dollars in Loans (000s)</i>				
	<i>Inside</i>		<i>Outside</i>		<i>Total</i>	<i>Inside</i>		<i>Outside</i>		<i>Total</i>
	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>		<i>\$</i>	<i>%</i>	<i>\$</i>	<i>%</i>	
<i>Small Business Loans</i>										
2000	359	80.9	85	19.2	444	55,634	76.8	16,828	23.2	72,462
2001	264	84.3	49	15.7	313	45,274	81.7	10,140	18.3	55,414
<b>Subtotal</b>	<b>623</b>	<b>82.3</b>	<b>134</b>	<b>17.7</b>	<b>757</b>	<b>100,908</b>	<b>78.9</b>	<b>26,968</b>	<b>21.1</b>	<b>127,876</b>
<i>Home Mortgage Loans</i>										
2000	58	73.4	21	26.6	79	12,428	78.7	3,355	21.3	15,783
2001	145	89.0	18	11.0	163	36,904	89.1	4,536	10.9	41,440
<b>Subtotal</b>	<b>203</b>	<b>83.9</b>	<b>39</b>	<b>16.1</b>	<b>242</b>	<b>49,332</b>	<b>86.2</b>	<b>7,891</b>	<b>13.8</b>	<b>57,223</b>
<b>Total</b>	<b>826</b>	<b>82.7</b>	<b>173</b>	<b>17.3</b>	<b>999</b>	<b>150,240</b>	<b>81.2</b>	<b>34,859</b>	<b>18.8</b>	<b>185,099</b>

Source: CRA Data Collection (2000 and 2001), HMDA LAR (2000 and 2001), and CRA Wiz

HMDA loans comprise 25 percent of the total loans originated with the assessment area. Table 6 illustrates the distribution of HMDA loans originated by type of loan. The data indicates that in 2001, the total number of mortgage loans increased by 150 percent. The increase was primarily in refinances, which represent 99 percent of the total loans originated in 2001. This increase was a direct result of the large decline in interest rates, which took place during the latter part of 2001. The bank also accepts applications for mortgage loans and refers them to the secondary market. In 2001, the bank referred 187 applications to brokers. The Valley Oaks branch separately referred 298 applications resulting in a total of 485 applications referred during 2001.

<b>Table 6 - Distribution of HMDA Loans Inside the Assessment Area</b>								
<b>Loan Category or Type</b>	<b>2000</b>				<b>2001</b>			
	<b>Number of Loans</b>		<b>Dollars in Loans (000s)</b>		<b>Number of Loans</b>		<b>Dollars in Loans (000s)</b>	
	<b>#</b>	<b>%</b>	<b>\$</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>\$</b>	<b>%</b>
<b>Home Purchase</b>	40	68.9	8,459	68.0	36	24.8	7,407	20.1
<b>Refinance</b>	15	25.9	3,824	30.8	99	68.3	27,856	75.5
<b>Home Improvement</b>	3	5.2	145	1.2	9	6.2	1,154	3.1
<b>Multi-Family</b>	0	0	0	0	1	0.7	487	1.3
<b>Total</b>	<b>58</b>	<b>100.0</b>	<b>12,428</b>	<b>100.0</b>	<b>145</b>	<b>100.0</b>	<b>36,904</b>	<b>100.0</b>

Source: HMDA LAR (2000-2001), CRA Wiz

## Geographic Distribution of Lending

Analysis of the bank's performance under this criterion was based on a review of small business and home mortgage loans originated in the Santa Barbara assessment area from January 1, 2000, through December 31, 2001. Overall, the bank's geographic distribution of loans reflects adequate penetration throughout the assessment area.

## Small Business Lending

Tables 7 and 7a illustrate the distribution of the number and dollar volume of small business loans within the assessment area by census tract income level. The distribution of census tracts within the assessment area as well as the 2000 aggregate lending data for the Santa Barbara MSA is also included for comparison purposes. The distribution of the bank's loan originations within LMI census tracts for the year 2000 (37 percent by number and 39 percent by dollar volume) compares well with the level of aggregate data for all lenders (37 and 46 percent, respectively) and the number of LMI census tracts (29 percent). For 2001, MBT's level of performance increased to 46 percent by number and 43 percent by dollar volume of loans. While the 2001 aggregate data was not available for comparison, this level of performance demonstrates MBT's commitment to originating small business loans in LMI areas of the community served.

<b>Table 7 – Distribution of Small Business Loans by Income Category of the Census Tract</b>								
<b>Census Tract Income Level</b>	<b>% of Total Number of Census Tracts in AA</b>	<b>2000 Aggregate Lending Data (% of \$)</b>	<b>2000</b>		<b>2001</b>		<b>Total</b>	
			<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>
<b>Low</b>	1.2	0.2	1	0.3	2	0.8	3	0.5
<b>Moderate</b>	28.1	37.2	130	36.2	119	45.1	249	40.0
<b>Middle</b>	35.4	28.4	84	23.4	61	23.1	145	23.2
<b>Upper</b>	32.9	34.2	144	40.1	82	31.0	226	36.3
<b>\$0/NA Income</b>	2.4	0.0	0	0.0	0	0.0	0	0.0
<b>Total</b>	<b>100</b>	<b>100.0</b>	<b>359</b>	<b>100.0</b>	<b>264</b>	<b>100.0</b>	<b>623</b>	<b>100.0</b>

Source: CRA Data Collection (2000-2001), CRA Aggregate Lending Data, and CRA Wiz

<b>Table 7a – Distribution of Small Business Loans by Income Category of the Census Tract</b>								
<b>Census Tract Income Level</b>	<b>% of Total Number of Census Tracts in AA</b>	<b>2000 Aggregate Lending Data (% of \$)</b>	<b>2000</b>		<b>2001</b>		<b>Total</b>	
			<b>\$ (000s)</b>	<b>%</b>	<b>\$ (000s)</b>	<b>%</b>	<b>\$ (000s)</b>	<b>%</b>
<b>Low</b>	1.2	0.1	50	0.1	1,175	2.6	1,225	1.2
<b>Moderate</b>	28.1	46.2	21,397	38.5	18,388	40.6	39,785	39.4
<b>Middle</b>	35.4	23.7	10,462	18.8	9,274	20.5	19,736	19.6
<b>Upper</b>	32.9	30.0	23,725	42.6	16,437	36.3	40,162	39.8
<b>\$0/NA Income</b>	2.4	0.0	0	0.0	0	0.0	0	0.0
<b>Total</b>	<b>100</b>	<b>100.0</b>	<b>55,634</b>	<b>100.0</b>	<b>45,274</b>	<b>100.0</b>	<b>100,908</b>	<b>100.0</b>

Source: CRA Data Collection (2000-2001), CRA Aggregate Lending Data, and CRA Wiz

## **Home Mortgage Disclosure Act (HMDA) Loans**

Tables 8 and 8a illustrate the distribution of the number and dollar volume of home mortgage loans. For comparison, the distribution of owner-occupied housing units for each census tract income level is shown in addition to the 2000 aggregate lending data.

The distribution of the bank's originations by number and dollar volume within LMI census tracts for 2000 is comparable with the level of owner-occupied housing units and the aggregate data for all lenders. However, in 2001 the level of penetration in LMI tracts declined below these levels. As mentioned previously, the majority of the bank's originations in 2001 were refinances and were made primarily in middle- and upper-income tracts. Typically middle- and upper-income borrowers are easier to qualify and have the resources available for closing costs. It should be noted here that there is only one low-income tract in the bank's assessment area and it comprises a college campus. Ninety percent of the housing units in that tract are rental units consisting of dormitories and apartment housing. Also, the moderate-income tracts consist of 66 percent rental units. In addition, there has been a decline in the availability of affordable homes in the Santa Barbara area due to strong home price appreciation. Given the limited opportunities to provide mortgage loans in LMI areas, the bank's performance is considered adequate.

Table 8 – Distribution of HMDA Loans by Income Category of the Census Tract								
Census Tract Income Level	% Total Owner-Occupied Housing Units	Aggregate Lending Data	2000		2001		Total	
		(% of #)						
		2000	#	%	#	%	#	%
Low	0.0	0.1	0	0.0	0	0.0	0	0.0
Moderate	16.3	19.1	12	20.7	11	7.6	23	11.3
Middle	40.6	42.6	23	39.7	46	31.7	69	34.0
Upper	43.1	38.2	23	39.6	88	60.7	111	54.7
\$0/NA Income	0	0.0	0	0.0	0	0.0	0	0.0
Total	100.0	100.0	58	100.0	145	100.0	203	100.0

Source: U.S. Census, HMDA LAR (2000-2001), HMDA Aggregate Data, and CRA Wiz

<b>Table 8a – Distribution of HMDA Loans by Income Category of the Census Tract</b>								
<b>Census Tract Income Level</b>	<b>% Total Owner-Occupied Housing Units</b>	<b>Aggregate Lending Data (% of \$)</b>	<b>2000</b>		<b>2001</b>		<b>Total</b>	
		<b>2000</b>	<b>\$ (000s)</b>	<b>%</b>	<b>\$ (000s)</b>	<b>%</b>	<b>\$ (000s)</b>	<b>%</b>
<b>Low</b>	0.0	0.2	0	0.0	0	0.0	0	0.0
<b>Moderate</b>	16.3	14.6	1,437	11.5	3,218	8.7	4,655	9.4
<b>Middle</b>	40.6	28.3	3,540	28.5	9,245	25.1	12,785	25.9
<b>Upper</b>	43.1	56.9	7,451	60.0	24,441	66.2	31,892	64.7
<b>\$0/NA Income</b>	0	0.0	0	0.0	0	0.0	0	0.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>12,428</b>	<b>100.0</b>	<b>36,904</b>	<b>100.0</b>	<b>49,332</b>	<b>100.0</b>

Source: U.S. Census, HMDA LAR (2000-2001), HMDA Aggregate Data, and CRA Wiz

## **Lending to Business of Different Sizes and Borrowers of Different Incomes**

The distribution of small business and home mortgage loans reflects adequate dispersion among businesses of different revenue sizes and borrowers of different income levels.

### **Businesses of Different Sizes**

Tables 9 and 9a illustrate the degree of lending to businesses of different revenue sizes within the assessment area. This data was compared to the 2000 aggregate lending data of all CRA reporters in the assessment area. As shown by the tables, 62 percent by number and 48 percent by dollar volume of small business loans originated in 2000 were to businesses that had revenues of less than or equal to \$1 million. These percentages compare well with the aggregate data of 43 by number and 51 percent by dollar volume. As previously mentioned, 2001 aggregate data is not yet available for comparison. However, the number and dollar volume of originated loans has increased and demonstrates the bank's commitment to small businesses.

<b>Table 9 – Distribution of Small Business Loans by Gross Annual Revenues of Business</b>							
<b>Gross Annual Revenues (000s)</b>	<b>2000 Aggregate Lending Data (% of #)</b>	<b>2000</b>		<b>2001</b>		<b>Totals</b>	
		<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>
<b>≤ \$1,000</b>	42.9	223	62.1	167	63.3	390	62.6
<b>&gt; \$1,000 or NA</b>	57.1	136	37.9	97	36.7	233	37.4
<b>Total</b>	<b>100.0</b>	<b>359</b>	<b>100.0</b>	<b>264</b>	<b>100.0</b>	<b>623</b>	<b>100.0</b>

Source: CRA data collection (2000-2001), CRA Aggregate Data, and CRA Wiz

<b>Table 9a – Distribution of Small Business Loans by Gross Annual Revenues of Business</b>							
<b>Gross Annual Revenues (000s)</b>	<b>2000 Aggregate Lending Data (% of \$)</b>	<b>2000</b>		<b>2001</b>		<b>Totals</b>	
		<b>\$ (000s)</b>	<b>%</b>	<b>\$ (000s)</b>	<b>%</b>	<b>\$ (000s)</b>	<b>%</b>
<b>≤ \$1,000</b>	50.5	26,617	47.8	23,912	52.8	50,529	50.1
<b>&gt; \$1,000 or NA</b>	49.5	29,017	52.2	21,362	47.2	50,379	49.9
<b>Total</b>	<b>100.0</b>	<b>55,634</b>	<b>100.0</b>	<b>45,274</b>	<b>100.0</b>	<b>100,908</b>	<b>100.0</b>

Source: CRA data collection (2000-2001), CRA Aggregate Data, and CRA Wiz

### **Borrowers of Different Incomes**

Tables 10 and 10a illustrate the distribution of the bank's origination of home mortgage loans to borrowers of different incomes. The data is compared to both the percentages of total households within the assessment area and the aggregate lending data for all reporters in the assessment area. The number of loans originated in 2000 to low-income borrowers was 8 percent, which exceeded the aggregate. Although the number of loans originated to moderate-income borrowers was below the aggregate of 11 percent, the level increased to 10 percent in 2001. While aggregate data for 2001 is not yet available for comparison, the bank's 2001 performance is similar to 2000.



The bank's level of performance to LMI borrowers appears low when compared to the percent of LMI households in the Santa Barbara assessment area. However, it should be noted that the census data is fairly outdated and more weight is given to the most recent performance levels of competing institutions in the area. As mentioned previously, the bank's one low-income tract consists of primarily rental units while housing in the moderate-income tracts are 66 percent rental units. Therefore, there is little opportunity for home mortgage transactions in these areas. Existing home prices for 2001 averaged \$353,000. In comparison, the Median Family Income (MFI) based on HUD-adjusted 2001 figures is \$56,500. To be classified as low and moderate, income must be less than 80 percent of the MFI. Based on the housing values within the assessment area, prospective first-time homebuyers with income at or below this level do not ordinarily qualify for financing. Given these factors and the level of lending for all aggregate reporters in the area, the bank's performance in this area is considered adequate.

As mentioned previously, the bank wholesales a large amount of mortgage applications to the secondary market, which is not included on their HMDA loan application register. The bank also provided community development loans, investments and services that have assisted LMI individuals in attaining affordable housing. These loans and services are described under the Community Development Lending, Investment Test, and Service Test sections of the report.

<b>Table 10 – Distribution of HMDA Loans by Borrower Income</b>								
<b>Median Family Income Level</b>	<b>% of Total Households</b>	<b>Aggregate Lending Data (% of #)</b>	<b>2000</b>		<b>2001</b>		<b>Total</b>	
		<b>2000</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>
<b>Low</b>	22.6	3.2	5	8.6	12	8.3	17	8.4
<b>Moderate</b>	16.7	11.3	4	6.9	14	9.7	18	8.9
<b>Middle</b>	20.7	21.2	10	17.3	25	17.2	35	17.2
<b>Upper</b>	40.0	60.5	39	67.2	93	64.1	132	65.0
<b>\$0/NA Income</b>	0.0	3.8	0	0.0	1	0.7	1	.5
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>58</b>	<b>100.0</b>	<b>145</b>	<b>100.0</b>	<b>203</b>	<b>100.0</b>

Source: U.S. Census, HMDA LAR (2000-2001), HMDA Aggregate Data, and CRA Wiz

<b>Table 10a - Distribution of HMDA Loans by Borrower Income</b>								
<b>Median Family Income Level</b>	<b>% of Total Households</b>	<b>Aggregate Lending Data (% of \$)</b>	<b>2000</b>		<b>2001</b>		<b>Total</b>	
		<b>2000</b>	<b>\$ (000s)</b>	<b>%</b>	<b>\$ (000s)</b>	<b>%</b>	<b>\$ (000s)</b>	<b>%</b>
<b>Low</b>	22.6	0.9	326	2.6	2,772	7.5	3,098	6.3
<b>Moderate</b>	16.7	4.5	158	1.3	2,068	5.6	2,226	4.5
<b>Middle</b>	20.7	10.9	956	7.7	4,130	11.2	5,086	10.3
<b>Upper</b>	40.0	77.2	10,988	88.4	27,447	74.4	38,435	77.9
<b>\$0/NA Income</b>	0.0	6.5	0	0.0	487	1.3	487	10.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>12,428</b>	<b>100.0</b>	<b>36,904</b>	<b>100.0</b>	<b>49,332</b>	<b>100.0</b>

Source: U.S. Census, HMDA LAR (2000-2001), HMDA Aggregate Data, and CRA Wiz

## Community Development Lending

MBT has an adequate record of originating and maintaining community development loans. For the review period of September 1999 through December 2001, the bank had two loans totaling approximately \$1.7 million. Since this is the bank's first evaluation under the large bank examination procedures, the level of community development lending is considered adequate for the bank's size and resources. The bank is principally a commercial lender, but has developed a proactive approach by targeting its loans to affordable housing-related activities, an area for which there is a strong need in Santa Barbara and surrounding communities.

Table 11 presents the bank's community development lending activities since the previous evaluation.

<b>Table 11 - Qualified Community Development Lending Activity</b>		
<b>LOAN DESCRIPTION</b>	<b>NUMBER OF LOANS</b>	<b>DOLLAR VOLUME OF LOANS (000s)</b>
<i>Multi-family Affordable Housing</i>	2	\$1,721
<b>Total</b>	<b>2</b>	<b>\$1,721</b>

Source: Bank records

- In 1995, the bank established a line of credit in the amount of \$2,339,623 for a California community reinvestment corporation, a non-profit mortgage-banking consortium created by California banks in response to critical shortage of affordable housing throughout the state. The non-profit consortium provides permanent, below-market, and fixed-rate financing for low-income housing development projects. It also provides technical assistance to affordable housing project sponsors and assists government entities in achieving maximum leverage of public and private funds to increase the supply of available affordable housing. As of December 31, 2001, the amount extended on the line of credit totaled \$1,122,176. In 1999, the bank also committed \$500,000 to the community reinvestment corporation's tax-exempt bond program.

### **Innovative and Flexible Lending Practices**

The bank makes limited use of innovative and/or flexible lending practices in order to serve the assessment area credit needs. In November of 2001, the bank approved a program which allows an applicant to borrow up to 90 percent loan-to-value on a manufactured home, up from a normal 75 percent maximum per the bank's credit policy. The additional 15 percent would be granted based upon securing a qualified guarantor, such as an employer. One target group of individuals for this program will be local farm workers, with the guarantee provided by their employer. No loans have been made under this program to date. This program will assist homebuyers who would otherwise not qualify for traditional banking products. This program specifically targets LMI borrowers, or LMI geographies.

### **INVESTMENT TEST**

MBT has an overall adequate level of qualified community development investments and grants based on the institution's size, resources, and the availability of such investments in the bank's assessment area. The bank is principally a commercial lender, but has developed a proactive investment approach of targeting its investments in affordable housing-related activities and the provision of basic services to LMI individuals within its assessment area.

Qualified investments for the review period of September 1999 through December 2001, totaled 17 by number of investments and approximately \$940 thousand by dollar amount. As this is the bank's first evaluation under the large bank examination procedures, both the number and dollar volume of debt or equity investments shows an adequate level of responsiveness to credit and community economic development needs. The bank rarely acts in a leadership role relative to community development initiatives. While the majority of the investments are not particularly innovative or complex, the investments are responsive to the needs identified in the bank's assessment area including those neighborhoods designated as low- and moderate-income.

Table 12 illustrates the bank's qualified investment activities within its assessment area.

<b>Table 12 - Qualified Investments</b>		
<b>DISCRIPTION</b>	<b>NUMBER</b>	<b>DOLLARS (000's)</b>
<i>Privately Issued Mortgage Backed Securities</i>	1	911
<i>Affordable Housing Rehabilitation and Construction</i>	2	11
<b>Total Debt or Equity Investments</b>	<b>3</b>	<b>922</b>
<i>Other Qualified Grants and Donations</i>	14	18
<b>Total Qualified Grants and Donations</b>	<b>14</b>	<b>18</b>
<b>Total</b>	<b>17</b>	<b>940</b>

Source: Bank Records

The types of qualified investments held by the bank directly respond to affordable housing and other community development projects within the institution's assessment area or larger regional area that includes the bank's assessment area. Below is a brief description of the more notable qualified investments.

### **Mortgage-Backed Securities Targeted to LMI Individuals**

During the review period, MBT purchased one privately offered security for a total of approximately \$911 thousand. The underwriting requirement for the security mandates that the principal amount of the security be backed by loans originated to LMI borrowers. The loans are secured by properties located in the California counties of Los Angeles, Orange, Sacramento, San Francisco, Santa Barbara, Santa Clara, and Ventura.

## **SERVICE TEST**

### **Retail Banking Services**

The bank's overall accessibility of delivery systems, alternate delivery systems, banking services, and business hours, within its assessment area are considered good and are accessible to essentially all portions of its community, including LMI areas and individuals. Below are specific comments relating to the bank's performance under the four areas covered under retail banking services.

### **Accessibility of Delivery Systems**

The bank's delivery systems are accessible to essentially all portions of its assessment area. The bank operates six full service branches and two loan production offices within its assessment area. The branches are reasonably distributed throughout the defined assessment area and among moderate-, middle-, and upper-income geographies. The bank does not have any branches in low-income census tracts, as there is only one low-income census tract in the Santa Barbara MSA. It should be noted that branches, in general, are easily accessible to all portions of the bank's assessment area.

Table 13 illustrates the distribution of bank branches by the income level of their geographies. As shown, there is only one low-income census tract in the bank's assessment area. The absence of a branch office in the low-income geography does not negatively impact accessibility to banking services as this census tract is sparsely populated (less than 2 percent of the total population) and comprises a local college campus residential area.

<b>Table 13 - Branch Distribution Analysis</b>				
<b><i>Census Tract Type</i></b>	<b><i>Number of Census Tracts</i></b>	<b><i>% of Total Census Tracts</i></b>	<b><i>Number of Branches</i></b>	<b><i>% of Total Branches</i></b>
<b><i>Low-Income</i></b>	1	1.2	0	0.0
<b><i>Moderate-Income</i></b>	23	28.1	1	16.7
<b><i>Middle-Income</i></b>	29	35.4	3	50.0
<b><i>Upper-Income</i></b>	27	32.9	2	33.3
<b><i>\$0/NA Income</i></b>	2	2.4	0	0.0
<b><i>Total</i></b>	<b>248</b>	<b>100.0</b>	<b>6</b>	<b>100.0</b>

Source: Bureau of Census and Bank Records

### **Alternate Delivery Systems**

The bank offers a wide range of alternative delivery systems that are accessible to essentially all portions of its community, including low- and moderate-income geographies and individuals. Full service ATMs are located at all of the bank's branches and the bank maintains two proprietary ATMs at a local food market and a non-profit hospital facility. Through non-proprietary ATMs, the bank offers access to a vast network of ATMs through its affiliation with the Star System network.

MBT offers a 24-hour customer service telephone line which permits customers to access deposit account and loan balance information and search for items processed and deposits credited since the last checking or savings account statement. Customers may also complete funds transfers between deposit accounts at the bank.

The bank has an on-line banking system, "On-Line Banker", that permits customers to access account history, pay bills, transfer funds, and download account information to personal money management software via the internet.

The bank continues to maintain its 24-hour Internet banking service. Customers can access the bank's WebPages at [www.montecito.com](http://www.montecito.com). The Internet banking service provides businesses and consumers with access to checking, savings, and loan account balances, and the ability to open deposit accounts and submit loan applications. Customers can also transfer funds between MBT accounts, pay bills, and submit inquiries through e-mail correspondence to bank personnel.

### **Reasonableness of Business Hours and Services in Meeting Assessment Area Needs**

The bank offers a variety of financial services through its branch network. The bank's full range of consumer and business loans is designed to meet the credit needs of its communities, including those neighborhoods designated as low- and moderate-income. Deposit services include checking and savings accounts, certificates of deposit, ATM service, and individual retirement accounts. The bank offers a variety of residential, consumer, and commercial loan products to meet defined credit needs within its assessment area.

The majority of the bank's branches are open Monday through Thursday from 8:00 AM until 4:00 PM and all branches are open until 6:00 PM on Friday. The bank's Valley Oaks branch hours are from 8:00 AM to 5:00 PM Monday through Thursday. The majority of branches have drive-up or walk-up Saturday hours from 9:00 AM to 1:00 PM with the Valley Oaks branch remaining open until 12:00 PM.

### **Changes in Branch Locations**

The bank has not opened or closed any branches since the prior evaluation dated September 28, 1999. The bank acquired Valley Oaks National Bank, a one-branch banking institution located in Solvang, California, in October 2001. Subsequent to the acquisition, Valley Oaks Bank retired its national charter and became a division of Montecito Bank and Trust. The bank maintains a branch opening and closing policy that meets all regulatory requirements in the event of future branch changes.

### **Community Development Services**

The bank provides a high level of community development services. The following table, Table 14, lists examples of the types of services provided by the bank since the previous evaluation. All of the services meet the definition of "community development" and also relate to the provision of financial services as required by the regulation for consideration under the CRA.

<b>Table 14 - Qualified Community Development Services</b>			
<b><i>Brief Service Description</i></b>	<b><i>Bank Sponsored Event, Program or Seminar</i></b>	<b><i>Technical Assistance or Director Involvement by Bank Employee</i></b>	<b><i>Bank Product or Service</i></b>
A bank officer was a founding member and serves on the board of a development corporation whose mission is to promote economic development and diversification.		1	
Organized workshops to educate small business owners in types of SBA and state loan programs offered to small businesses.	5		
Bank officers serve on boards or financing committees of several CDCs that provide financing and technical assistance to facilitate the development of affordable housing or small business start-ups.		4	
Participates in educational programs designed to assist local LMI individuals in understanding how to manage finances and credit to qualify for initial home purchase.		3	
Bank officers and employees serve on boards or financing committees of several local community organizations that provide basic services to LMI individuals.		5	

*Source: Bank Records*

A few of the more significant types of community development services provided by MBT are detailed below.

- The bank was a founding member of a local small business CDC that provides loans and technical assistance to small business start up enterprises.
- The bank organized and conducted workshops geared to educate small business owners in the types of SBA and state loan programs offered to small businesses.
- A bank officer serves as the Board President of a non-profit corporation, which is dedicated to creating and maintaining affordable housing opportunities in the area for people with low incomes.
- Two board members serve on the directorate of a non-profit hospital that was created to serve the medical needs of LMI individuals in the assessment area.

## **COMPLIANCE WITH ANTIDISCRIMINATION LAWS**

No substantive violations of the anti-discrimination laws were identified at this evaluation.



## APPENDIX A

### GEOGRAPHY TERMS

**Block:** Small areas bounded on all sides by visible features such as streets, roads, streams or rail road tracks, and invisible features like city or town boundaries or property lines. Blocks are subdivisions of census tracts or block numbering areas (BNA), and are assigned a unique three-digit number.

**Block Group:** Clusters of blocks within a census tract or BNA, having a four-digit number and a three-digit suffix. The four-digit number corresponds to the same number given to the census tract or BNA in which it is located.

**Block Numbering Areas (BNAs):** Statistical subdivisions of a county for grouping and numbering blocks in non-metropolitan counties where local census statistical area committees have not established census tracts. BNAs do not cross county lines.

**Census Tract:** Small subdivisions of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan statistical areas. They usually have between 2,500 and 8,000 persons, and their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

**Metropolitan Area (MA):** One or more large population centers and adjacent communities that have a high degree of economic and social integration. Each MA must contain either a place with a minimum population of 50,000 of Census Bureau-defined urbanized area and a total MA population of at least 100,000 (75,000 in New England). An MA comprises one or more central counties and may include one or more outlying counties that have close economic and social relationships with the central county. In New England, MAs are composed of cities and towns rather than whole counties.

**Metropolitan Statistical Area (MSA):** One or more metropolitan areas that have economic and social ties.

**Primary Metropolitan Statistical Area (PMSA):** A large urbanized county or cluster of counties that demonstrate very strong internal economic and social links, in addition to close ties to other portions of the larger area. If an area qualifies as an MA and has more than one million persons, PMSAs may be defined within it.

**Consolidated Metropolitan Statistical Area (CMSA):** The larger area of which PMSAs are component parts.

**Non-Metropolitan Area:** All areas outside of metropolitan areas. The definition of non-metropolitan area is not consistent with the definition of rural areas. Urban and rural classifications cut across the other hierarchies; for example, there is generally both urban and rural territory within both metropolitan and non-metropolitan areas.

**Urban Area:** All territories, populations, and housing units in urbanized areas and in places of 2,500 or more persons outside urbanized areas. More specifically, “urban” consists of territory, persons, and housing units in: places of 2,500 or more persons incorporated as cities, villages, boroughs (except in Alaska and New York), and towns (except in the New England states, New York, and Wisconsin) but excluding the rural portions of “extended cities”; census designated place of 2,500 or more persons; and other territory, incorporated or unincorporated, including in urbanized areas.

**Rural Area:** Territories, populations and housing units that are not classified as urban.

## **HOUSING TERMS**

**Family:** Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family which is further classified into “male householder” (a family with a male householder and no wife present) or “female householder” (a family with a female householder and no husband present).

**Household:** Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

**Housing Unit:** Includes a house, an apartment, a mobile home, a group of rooms, or a single room that is occupied as separate living quarters.

**Owner-Occupied Units:** Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

## **INCOME TERMS**

**Median Income:** The median income divides the income distribution into two equal parts, one having incomes above the median and other having incomes below the median.

**Area Median Income:** The median family income for the MSA, if a person or geography is located in an MSA; or the statewide non-metropolitan median family income, if a person or geography is located outside an MSA.

**Family Income:** Includes the income of all members of a family that are age 15 and older.

**Household Income:** Includes the income of the householder and all other persons that are age 15 and older in the household, whether related to the householder or not. Because many households consist of only one person, median household income is usually less than median family income.

**Low-Income:** Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent in the case of a geography.

**Moderate-Income:** Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 and less than 80 percent in the case of a geography.

**Middle-Income:** Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 and less than 120 percent in the case of a geography.

**Upper-Income:** Individual income that is more than 120 percent of the area median income, or a median family income that is more than 120 percent in the case of a geography.

**HUD Adjusted Income Data:** The U.S. Department of Housing and Urban Development (HUD) issues annual estimates which update median family income from the metropolitan and non-metropolitan areas. HUD starts with the most recent U.S. Census data and factors in information from other sources to arrive at an annual estimate that more closely reflects current economic conditions.

## **OTHER TERMS**

**Home Mortgage Disclosure Loan Application Register (HMDA LAR):** The HMDA LARs record all applications received for residential purchase, refinance, home improvement and temporary-to-permanent construction loans.

**Small Business Loan:** A loan included in “loans to small businesses” as defined in the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$1 million or less and are either secured by nonfarm nonresidential properties or are classified as commercial and industrial loans.

**Small Farm Loan:** A loan included in “loans to small farms” as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, including farm residential and other improvements, or are classified as loans to finance agricultural production and other loans to farmers.

## APPENDIX B - INVESTMENT DEFINITIONS

**Community Development Corporation (CDC):** A CDC allows banks and holding companies to make equity type of investments in community development projects. The equity investments are subject to limits specified by the bank's regulator. Bank CDCs can develop innovative debt instruments or provide near-equity investments tailored to the development needs of the community as well as to the financial and marketing needs of the bank. A CDC may purchase, own, rehabilitate, construct, manage and sell real property. Also, it may make equity or debt investments in development projects and in local businesses. The CDC activities are expected to directly benefit low- and moderate-income groups, and the investment dollars should not represent an undue risk on the banking organization. Any real estate ownership should generally be temporary, with ownership reverting to members or organizations in the community.

**Community Development Financial Institutions (CDFIs):** CDFIs are private intermediaries (either for profit or nonprofit) with community development as their primary mission. They procure loans and investments that conventional financial institutions are unable to invest in, and they link financing to other developmental activities. A CDFI facilitates the flow of lending and investment capital into distressed communities and to individuals who have been unable to take advantage of the services offered by traditional financial institutions. CDFIs share a common mission and can be chartered as a credit union or bank. CDFIs can also be unregulated nonprofit institutions that gather private capital from a range of social investors for community development lending or investing. Some basic types of CDFIs include community development banks, community development loan funds, community development credit unions, microenterprise funds, and community development venture capital funds. A certified CDFI must meet eligibility requirements, which include: having a primary mission of promoting community development; serving an investment area or target population; providing development services; maintaining accountability to residents of its investment area or targeted population through representation on its governing board of directors, or by other means; and not constituting an agency or instrumentality of the United States, of any state or political subdivision of a state.

**Low Income Housing Tax Credits:** The Low-Income Housing Tax Credit Program is a housing program contained within the Internal Revenue Code of 1986, as amended, which is administered by the U.S. Department of the Treasury and the Internal Revenue Service. The U.S. Treasury Department, through the Internal Revenue Service, distributes low-income housing tax credits to housing credit agencies. The housing agencies allocate tax credits on a competitive basis. Developers who acquire, rehabilitate, or construct low-income rental housing may keep their tax credits or sell them to corporations or investor groups, who, as owners of these properties, will be able to reduce their own federal tax payments. The credit can be claimed annually for ten consecutive years. For a project to be eligible, the developer must set aside a specific percentage of units for occupancy by low-income residents. The set-aside requirement remains in place throughout the compliance period, usually 30 years.

**Qualified Investments:** A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development to support the following endeavors: 1) affordable housing; 2) community services targeting low- and moderate-income individuals; 3) activities that promote economic development by financing small farms and small businesses; and 4) activities that revitalize or stabilize low- and moderate-income geographies.

## **APPENDIX C - STANDARD PE LANGUAGE**

### **LENDING TEST**

#### **Scope of Test**

The lending test evaluates the institution's record of helping to meet the credit needs of its assessment area(s) by considering an institution's home mortgage, small business, small farm, and community development lending. The institution's lending performance is evaluated pursuant to the following criteria: 1) the volume of lending activity; 2) the proportion of lending within the assessment area(s); 3) the dispersion of loans and the number and amount of loans in low-, moderate-, middle- and upper-income geographies in the assessment area(s); 4) the distribution of loans among borrowers of low-, moderate-, middle- and upper-income levels and businesses (including farms) of different sizes; 5) the distribution of small business and small farm loans by loan amount at origination; 6) the volume of community development lending; and 7) the use of innovative or flexible lending practices. Performance under the lending test is weighted more heavily than the investment and service tests when arriving at an overall rating.

#### **Community Development Lending:**

##### **Performance Criteria**

The institution's community development lending activities are evaluated pursuant to the following criteria: 1) the extent to which community development lending opportunities have been made available to the institution; 2) the responsiveness of the institution's community development lending; and 3) the extent of leadership the institution has demonstrated in community development lending.

#### **Innovative and Flexible Lending Practices:**

##### **Performance Criteria**

The institution's innovative and flexible lending practices are evaluated pursuant to the following criteria: 1) the degree to which the loans serve low- and moderate-income creditworthy borrowers in new ways or serve groups of creditworthy borrowers not previously served by the institution; and 2) the success of each product serving low- and moderate-income borrowers, including the number and dollar volume of loans originated during the review period.

## **INVESTMENT TEST**

### **Scope of Test**

The investment test evaluates the institution's record of helping to meet the credit needs of its assessment area(s) through its use of qualified investments that benefit the assessment area(s) or a broader statewide or regional area that includes the institution's assessment area(s). Activities considered under the lending or service test may not be considered under the investment test.

The institution's investment performance is evaluated pursuant to the following criteria: 1) the dollar amount of qualified investments; 2) the innovativeness or complexity of qualified investments; 3) the responsiveness of qualified investments to credit and community development needs; and 4) the degree to which the qualified investments are not routinely provided by private investors.

## **SERVICE TEST**

### **Scope of Test**

The service test evaluates the institution's record of helping to meet the credit needs of its assessment area(s) by analyzing both the availability and effectiveness of the institution's systems for delivering retail banking services and the extent and innovativeness of its community development services. The institution's retail banking services are evaluated pursuant to the following criteria: 1) the distribution of the institution's branches among geographies of different income levels; 2) the record of opening and closing branches, particularly branches located in low- and moderate-income geographies or that primarily serve low- or moderate-income individuals; 3) the availability and effectiveness of alternate systems for delivering retail banking services; and 4) the range of services provided in low-, moderate-, middle-, and upper-income geographies and the degree to which the services are tailored to meet the needs of those geographies.

In addition, the institution's community development services are evaluated pursuant to the following criteria: 1) the extent of community development services offered and used; 2) the innovativeness of community development services, including whether they serve low- and moderate-income customers in new ways or serve groups of customers not previously served; 3) the degree to which they serve low- and moderate-income areas or individuals; and 4) their responsiveness to available opportunities for community development services.